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MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1940

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1940

February 21, 1941.

To the Stockholders of

MANGEL STORES CORPORATION

The Profit and Loss Account for the year ended December 31, 1940, and the consolidated balance sheet are presented herewith.

The Company had 98 stores in operation at the end of 1940 as compared with 102 stores at the end of 1939. The increase in volume store for store was 10.2%, but the 98 stores against 102 stores turned in an increase of 7.3%, which we believe was favorable in comparison with the general business conditions throughout the country.

Our store improvement program continued with the installation of a number of cooling systems, new fronts and some complete installations. Four unprofitable units were closed, a number of the units were enlarged, but no new units were added in 1940. Our expansion program for 1941 again calls for further consolidation and improvement of the units we already have.

A dividend of $1.50 was paid at the year end, and if favorable conditions in 1941 continue on the basis already demonstrated in January, the company will again consider either the payment of some dividend on arrears, or the resumption of the regular dividend payments.

Working capital increased from $875,195 in 1939 to $951,141 in 1940. The cash balance in 1940 was $734,487 as against $703,849 in 1939. The inventory decreased from $940,171 in 1939 to $908,254 in 1940. Despite this lower inventory, the volume of business in January 1941 was substantially increased. So far, we have not encountered any substantial rise in commodity prices.

Although the operating expense was held in line and merchandising results improved, the reserve for the Federal tax is double that of 1939 and other taxes for City, County and State have substantially increased.

However, if the substantial increase in volume developed in the month of January continues for the balance of the year we may anticipate a proportionate increase in the 1941 net result.

Respectfully submitted,

SOL MANGEL,

President.

MANGEL STORES CORPORATION
AND SUBSIDIARIES

EXHIBIT A

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1940

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$ 734,487.10
Accounts receivable — less reserve (including employees' accounts)			281,239.54
Merchandise inventory — at the lower of cost or market, based upon the retail method of inventory valuation			908,254.60
TOTAL CURRENT ASSETS			1,923,981.24
OTHER ASSETS:			
Loans to officers, employees and others — less reserve		$ 4,949.10	
Cash balances, certificates of participation, etc. — suspended banks — less reserve		296.51	
Sundry deposits		3,990.40	9,236.01
FIXED ASSETS:			
Real estate — at values as appraised for the management in June, 1932, with subsequent additions at cost, subject to mortgages shown contra	$ 185,370.00		
Less: Reserve for depreciation	22,271.85	163,098.15	
Furniture and fixtures, leasehold improvements, and truck — at values appraised by the management in June, 1932, with subsequent additions at cost	1,064,265.00		
Less: Reserve for depreciation on additions subsequent to June, 1932	406,360.77	657,904.23	821,002.38
DEFERRED CHARGES:			
Unexpired insurance, prepaid expenses, etc.		31,708.13	
Stationery and supplies		5,900.00	37,608.13
GOODWILL			1.00
			$2,791,828.76

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable — merchandise, less discounts			$ 682,236.25
Accounts payable — expenses, taxes, etc.			216,321.34
Customers' credits			31,900.37
Mortgage installments payable within one year			3,732.50
Reserve for Federal income taxes — Note E			38,650.00
TOTAL CURRENT LIABILITIES			972,840.46
MORTGAGES PAYABLE IN INSTALLMENTS, LESS CURRENT INSTALLMENTS SHOWN ABOVE:			
Mortgage payable through October 8, 1945		$ 28,000.00	
Mortgage payable through October 28, 1957		37,970.55	65,970.55
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock — $5.00 Cumulative, no par value — stated value $25.00 per share — entitled to $100.00 per share and accrued dividends in the event of liquidation — Notes A, C, and D:			
Authorized, issued and outstanding — 17,500 shares		437,500.00	
Less: In treasury — 790 shares		19,750.00	
		417,750.00	
Common Stock — Par Value $1.00 per share — Notes A and B:			
Authorized — 300,000 shares			
Issued and outstanding — 177,500 shares		177,500.00	
		595,250.00	
Surplus — Exhibit B — Note C:			
Capital surplus	$712,388.00		
Earned surplus — since January 1, 1936	445,379.75	1,157,767.75	1,753,017.75
			$2,791,828.76

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

Note A — The outstanding capital stock as stated is after giving effect to the shares to be issued for 215 shares of the previously outstanding 6½% Preferred Stock, par value $100.00 per share, (entitled upon redemption or voluntary liquidation to $110.00 per share plus accrued dividends, and entitled upon involuntary liquidation to $100.00 per share plus accrued dividends) which had not been surrendered for cancellation and exchange as at December 31, 1940, for 215 shares of the new convertible, no par value, Preferred Stock and 645 shares of the new $1.00 par value Common Stock, under the Plan of Recapitalization dated October 14, 1936. Cumulative dividends on said 215 shares of previously outstanding 6½% Preferred Stock amounted to $34.00 per share, or an aggregate amount of $7,310.00, as of the date when the Plan of Recapitalization was consummated. The company may possibly be contingently liable, pending the exchange of the 215 shares of old 6½% Preferred Stock.

Note B — 105,000 shares of Common Stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the convertible Preferred Stock.

Note C — The company has been advised by its counsel that, in his opinion, there are no restrictions upon the surplus of the company by reason of the difference of $1,312,500 between the liquidation value of its convertible Preferred Stock and the stated value thereof. The Board of Directors, by a resolution dated October 30, 1940, expressed their intention at that time not to impair the capital surplus of the company and its subsidiaries as at December 31, 1939 by the payment of dividends (at December 31, 1939, the consolidated capital surplus amounted to $718,953.00 and was reduced during the year by $6,565.00, representing the excess of the cost over the stated value of convertible Preferred Stock purchased for the treasury). It is contemplated that the Board of Directors whenever, in its opinion, the earnings and the then financial condition shall warrant the same, will declare dividends from earnings or earned surplus account without regard to the fact that the excess of aggregate liquidation value of convertible Preferred Stock over its aggregate stated value may be greater than the sum of the par value of the Common Stock and surplus.

Note D — As at December 31, 1940, cumulative dividends on the outstanding convertible preferred stock, amounting to $12.25 per share or an aggregate of $204,697.50, had not been declared or paid.

Note E — The provision for Federal income and excess profits taxes includes provisions of $243.09 for declared value excess profits taxes and $4,396.37 for corporation excess profits taxes.
The accompanying statements are subject to final determination of the liability for Federal income and excess profits taxes.

EXHIBIT B

MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED SURPLUS FOR THE YEAR ENDED DECEMBER 31, 1940

CAPITAL SURPLUS — Note C:		
Balance at January 1, 1940	$718,953.00	
Less: Excess of cost over stated value of treasury stock acquired	6,565.00	
CAPITAL SURPLUS AT DECEMBER 31, 1940		$ 712,388.00
EARNED SURPLUS (Since January 1, 1936) — Note C:		
Balance at January 1, 1940	333,730.51	
Add: Adjustment of reserve for Federal income taxes provided at December 31, 1939 and refunds in respect of year 1937	1,030.95	
Consolidated net income for the year ended December 31, 1940 — Exhibit C	135,683.29	
	470,444.75	
Less: Dividend paid on preferred stock at the rate of $1.50 per share	25,065.00	
EARNED SURPLUS (Since January 1, 1936) at December 31, 1940		445,379.75
		$1,157,767.75

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

EXHIBIT C

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 1940

Net sales	$9,287,978.37
Cost of goods sold, general, administrative and selling expenses	8,960,138.83
Net operating profit before provision for depreciation	327,839.54
Provision for depreciation	114,312.66
Net profit before other income and other charges	213,526.88
Other income	4,255.92
	217,782.80
Other charges	43,449.51
Consolidated net profit before provision for Federal income and excess profits taxes	174,333.29
Provision for Federal income and excess profits taxes — Note E	38,650.00
Consolidated net profit transferred to surplus — Exhibit B	$ 135,683.29

The Notes to Accounts, appended hereto, are an integral part of this statement and should be read in conjunction herewith.

TO THE BOARD OF DIRECTORS,
MANGEL STORES CORPORATION,
NEW YORK, N. Y.

We have examined the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1940, and the consolidated statement of surplus, and income and profit and loss for the year then ended, have reviewed the system of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence, by methods and to the extent we deemed appropriate.

In our opinion, the accompanying consolidated balance sheet and related consolidated statement of surplus, and income and profit and loss, together with the Notes to Accounts, present fairly the consolidated position of the Mangel Stores Corporation and its subsidiaries at December 31, 1940, and the consolidated results of their operations for the year, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

S. D. LIEDESDORF & CO.

NEW YORK, N. Y.
February 18, 1941.